

MINUTES

MONTANA HOUSE OF REPRESENTATIVES 58th LEGISLATURE - REGULAR SESSION

JOINT APPROPRIATIONS SUBCOMMITTEE ON GENERAL GOVERNMENT AND TRANSPORTATION

Call to Order: By **CHAIRMAN JOHN BRUEGGEMAN**, on January 16, 2003
at 8:05 A.M., in Room 317-B Capitol.

ROLL CALL

Members Present:

Rep. John Brueggeman, Chairman (R)
Sen. Rick Laible, Vice Chairman (R)
Sen. Gregory D. Barkus (R)
Sen. Mike Cooney (D)
Rep. Monica Lindeen (D)
Rep. John Sinrud (R)

Members Excused: None.

Members Absent: None.

Staff Present: Matt Bugni, OBPP
Greg DeWitt, Legislative Branch
Amy Sassano, OBPP
Misty Shea, Committee Secretary

Please Note: These are summary minutes. Testimony and discussion are paraphrased and condensed. The time stamp for these minutes appears at the beginning of the content it refers to.

Committee Business Summary:

Hearing(s) & Date(s) Posted: Department of Administration
Divisions, 1/16/2003
Executive Action: none

Banking and Financial Institutions

{Tape: 1; Side: A; Approx. Time Counter: 0 - 16}

Annie Goodwin, Commissioner of Banking and Financial Institutions for the State of Montana, introduced her staff; Chris Olson, Deputy Commissioner, and Jim Darfler, Bank Analyst for the division. She also brought attention to people in the audience who are in support of her budget proposal (Refer to Exhibit 1). She spoke to the committee about her background and she began to explain what the division does (See Mission Statement Page 1). **Ms. Goodwin** then presented the information on Pages 1-7 of the budget presentation handout. She explained that the State Bank Board is administratively attached to the banking division; its six members and their duties are appointed by the Governor. She said that her division has 24.75 full-time employees and two offices, one in Helena, the other in Billings. She explained the need for both. **Ms. Goodwin** went over the statewide impact of the division: growth by comparison, regulations, staffing, assets, deposits, loans, bank education, and funding (none from General Fund).

EXHIBIT(jgh09a01)

{Tape: 1; Side: A; Approx. Time Counter: 16 - 30}

SEN. COONEY and **SEN. BARKUS** had Ms. Goodwin explain further the growth of financial institutions (bank branches) and the examination function. **Ms. Goodwin** spoke on the necessary skills, recruitment, and retention of examiners, which she deemed as a challenge. Therefore, she stated that the professional career ladder proposal (Page 8 of Exhibit 1) is rated as the division's most important, as productivity improves over time. **Ms. Goodwin** went over the division's organizational chart (Exhibit 1 Page 8), while drawing the committee's attention to the red dates of hire and speaking on the status of positions (Reference Page 9).

{Tape: 2; Side: A; Approx. Time Counter: 0 -22.5}

Ms. Goodwin discussed the rent increase for the Helena office proposal, as they had to relocate this past year. She explained the proposal to lease vehicles from the Department of Transportation for examiners' travel, and the four FTE for them. She then explained how funding the accreditation by the Conference of State Bank Supervisors would benefit the state's bank industry (Reference Pages 9-12 of Exhibit 1).

Proponents' Testimony:

Craig Rehm, representing First Security Bank of Fort Benton, and the Montana Bankers Association, testified to the importance of funding the Banking and Financial Institutions Division for purposes of insurance and employee retention. He also stated from experience that the quality of bank exams in the past 3-4 years has been pleasing.

Keith Colbo, Executive Director Montana Independent Bankers who was the Director of the Department of Commerce from 1985-89, stated that the issues presented today are the same as they were back then. He was in support of the budget proposal to better serve Montana citizens and the banking community.

Bob Pyfer, Senior Vice President Montana Credit Union Association, stated that they stand in support of Commissioner Goodwin's budget request.

John Cadby, President CEO Montana Bankers' Association, complimented Ms. Goodwin, her staff, and associates for their professionalism and hard work. He provided a historical perspective on bank regulating and the maintenance of that system, which he supports.

{Tape: 2; Side: A; Approx. Time Counter: 22.5 - 30}

Ms. Goodwin addressed an LFD issue relating to reserves and revenue projections (Reference Page A-226 of the Budget Analysis Book). **SEN. COONEY** asked how much money is in reserve. **Ms. Goodwin** replied \$1,429,000, and she explained restricted use of those funds. **Greg DeWitt, LFD,** spoke on the instability shown in the LFD issue.

EXHIBIT(jgh09a02)

{Tape: 2; Side: B; Approx. Time Counter: 0 - 16}

Ms. Goodwin continued speaking on the shared concerns raised in the LFD issue and the division's intent in relation to them. **SEN. BARKUS** and **Ms. Goodwin** discussed the country's economic downturn, future banking industry preparation, and the FDIC. **REP. SINRUD** asked a myriad of questions about escrow accounts, regulation and investigations.

Ms. Goodwin answered, giving an example of how a complaint filed in Billings was handled by the state of Montana. She stated that more oversight is needed and planned. **REP. SINRUD** and **Ms. Goodwin** discussed what will change with or without the new accreditation if it is funded and approved.

{Tape: 2; Side: B; Approx. Time Counter: 16 - 30}

John Cadby addressed Montana "weathering the economical storm." He thought the banks were doing well. He discussed bank earnings, agricultural loans, and FDIC examination. **Mr. Cadby** assured the committee that the Montana Bankers' Association would make sure the Banking and Financial Institutions Division money is well spent.

CHAIRMAN BRUEGGEMAN, with respect to the division's issues, asked **Ms. Goodwin** about a bill and its fiscal note that moved out of the House the prior day that adds division responsibility. He wanted to know if the effect would be additional staffing need and fees due to expansion. **Ms. Goodwin** explained the function of examining; her reply included how the assessment fee is realistic to what the company assessed can absorb.

REP. SINRUD asked **Ms. Goodwin** about bank fees, and she replied that they are based on assets. **SEN. LAIBLE** and **Ms. Goodwin** discussed the cost of the broadband pay plan and its intention, and the division's projected fund balance along with their comfort level. **Ms. Goodwin** stated that the division has no intention to increase the fees of their banks and credit unions as long as they have a fund balance that allows them to operate effectively. **Greg DeWitt, LFD** made comments of clarification in regard to **SEN. LAIBLE's** questions (Reference Page A-227 of the Budget Analysis book and Exhibit 2).

{Tape: 3; Side: A; Approx. Time Counter: 0 - 7.5}

Greg DeWitt, LFD, continued speaking on division funding. He addressed the 60-day working capital accounting parameter established by rule and statute. **SEN. BARKUS** who has been in the banking business, addressed brokerage operations, asking **Ms. Goodwin** if she foresees any responsibilities surrounding protections of their deposits. Her answer included her belief that banks need to implement measures to disclose safety and soundness to customers. **SEN. BARKUS** agreed that the safeguards are there, but sees depositor risk as a potential issue still, so he implored the division to work diligently on this.

{Tape: 3; Side: A; Approx. Time Counter: 7.5 - 30}

State Tax Appeal Board

JereAnn Nelson, State Tax Appeal Board Member, came forward with a handout for the committee (Exhibit 3) and provided an overview of it. She explained their function, appropriation, travel, salary and benefits, appointments, reimbursements, 7 FTE, DOR reappraisal effects, and program request. **SEN. LAIBLE** had questions about the appeals that took place in 2002 and the process. **Ms. Nelson** explained those that came to them and what their role was.

REP. SINRUD had **Ms. Nelson** discuss the appeal time-line and appraisal standards for his understanding due to a constituent contacting him previously. **SEN. LAIBLE** and **Greg DeWitt, LFD** discussed the chart at the top of Page A-250 of the Budget Analysis book having to do with personal services.

Ms. Nelson shared with the committee an e-mail she received from a Cascade county appraisal specialist on the upcoming reappraisals that contained estimated percentages and numbers of statewide filings. She said historically, based on this information, appeals will rise. **CHAIRMAN BRUEGGEMAN** stated what he thought the committee might adjust and the effects. Final topics briefly touched on were the removal of land caps which have had no effect, and the vehicle used for travel.

EXHIBIT (jgh09a03)

{Tape: 3; Side: B; Approx. Time Counter: 0 - 14}

JereAnn Nelson explained calculating appeal cost and reversion (Page 4 of Exhibit 3).

Risk Mangagement and Tort Defense Division

Brett Dahl, Administrator Risk Management and Tort Defense Division, began his budget presentation (Exhibit 4). He first provided the committee with information on his background and experience. He spoke on the division's mission (Page 1), types of counsel used, the kinds of lawsuits received, and the expertise it takes to defend in litigation. **Mr. Dahl** stated that the most important thing the division does is to attempt to hire someone with a skill level matched to the opposing counsel. He gave an example involving a snowplow accident. He explained how the division handles resolution of claims and legal cases that have

merit. He also spoke to liability, frivolous claims and lawsuits, possible state agency negligence, and preparing cases for trial.

He discussed attempting to self-administer claims limited in size to control the outcome and carefully manage the cost while purchasing excess insurance for all other claims handled.

Mr. Dahl explained reasons why they self-insure and how that insurance is based on agencies being unable to cover unexpected losses (Reference Page A-245 of the Budget Analysis book). He spoke on catastrophic events such as earthquakes, amounts of insurance purchased, and how it protects the state. He said the division entirely self-insures their general tort and liability cases, where most of their costs are found and expenses incurred.

EXHIBIT (jgh09a04)

{Tape: 3; Side: B; Approx. Time Counter: 14 - 24}

Mr. Dahl distinguished for the committee the difference between a lawsuit and a claim. He added that the majority of claims filed are by individuals representing themselves, and that the division has 120 days to evaluate and investigate those claims. **Mr. Dahl** stated that approximately 900-1200 claims are received each year, and that they range from auto liability to property. He discussed differing claims involving the operation of snowplows, and risk management principles and techniques. He explained the division's scope and impact of services in detail (Page 2 of Exhibit 4). He paused, introduced Kristie Rhodes, Risk Finance Specialist, then began to go over the organizational structure of the division.

{Tape: 3; Side: B; Approx. Time Counter: 24 - 29}

Mr. Dahl discussed the 2003 biennium successes of the Risk Management and Tort Defense Division and their funding sources (Page 3, Exhibit 4).

{Tape: 4; Side: A; Approx. Time Counter: 0 -17.5}

Mr. Dahl let the committee know that the division cannot predict what their claims and lawsuits are going to cost and why that is. He brought to the committee's attention that fiscal year 2002 was historically, the worst year of litigation, with \$8.2 million spent before January 1, 2001. This meant that all the losses occurred prior to the last time the committee met to hear their budget. This presents a challenge, as incurred costs can take two

to eight years to show up, therefore the division carefully tries to prepare a budget package to sustain them. **Mr. Dahl** then explained funding objectives and methods, proposed rate increases, and the factors influencing them, (such as 9/11) and provision of high-risk services (Reference Pages 4-5 of Exhibit 4). **Mr. Dahl** stated that an exposure analysis is done every year before insurance policy renewal with collected data showing possible trends. They provide this information to the agencies (Reference Page 6 of Exhibit 4). He gave several examples of cost increases seen due to the top exposures and answered committee members' questions related to them.

{Tape: 4; Side: A; Approx. Time Counter: 17.5 - 30}

Mr. Dahl emphasized that out of all 2,300 claims and lawsuits received in the past three years, a small amount (29) account for most of the expenditures which he discussed. **REP. SINRUD** asked which departments had the most severe cases. **Mr. Dahl** answered: the Department of Transportation, the Department of Public Health and Human Services, and the Department of Corrections. **REP. SINRUD** had further questions and **Mr. Dahl** said he would get him the information.

Mr. Dahl described the industry's worst catastrophes and those effects (Reference Pages 7-9). He told the committee that the division has been notified that terrorism is not covered under their policy, and that they are shopping for a new carrier due to market response. He made reference to Page A-248 of the Budget Analysis book and addressed the LFD issues with rate increases and not purchasing excess liability insurance. He explained the division's initial proposal and what they are now proposing in order to cover expenses (Reference Page 9 of Exhibit 4).

{Tape: 4; Side: A; Approx. Time Counter: 0 - 24}

Mr. Dahl explained the division's anticipated insurance funding need, allocated and unallocated expenses, auto insurance adjustments, the aviation proposal, and self-insuring (Reference Pages 9-12 of Exhibit 4 and Pages A-246 of the Budget Analysis book). **REP. SINRUD** and **Mr. Dahl** discussed the intent of putting together rate packages, how the objectives have changed over time, and projecting for the future. **Greg DeWitt, LFD**, and **SEN. BARKUS** added their comments.

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Director Darkenwald commented on what the Risk Management and Tort Defense Division is trying to accomplish. **SEN. LAIBLE** and **Mr. Dahl** had a discussion about tort liability and possible reform. **CHAIRMAN BRUEGGEMAN** suggested that the presentation wrap-up. He, committee members, and Mr. Dahl talked about past attempted budget cuts.

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ADJOURNMENT

Adjournment: 12 P.M.

REP. JOHN BRUEGGEMAN, Chairman

MISTY SHEA, Secretary

JB/MS

EXHIBIT (jgh09aad)